International Monetary Fund

Togo and the IMF

Press Release:
IMF Executive Board Completes Sixth and Final Review Under the ECF Arrangement for Togo and Approves US$13.95 Million Disbursement
July 18, 2011

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Togo: Letter of Intent

June 26, 2011

Lomé, June 28, 2011

THE MINISTER

Mr. John Lipsky
Acting Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Lipsky:

1. Further to our letter of November 15, 2010, we take the opportunity of the sixth and final review of the program supported by the Extended Credit Facility (ECF) to take stock of program implementation and report on the outlook for the future.

2. We continue to carry out our economic program and structural reforms in a generally satisfactory manner in pursuit of our goals of maintaining macroeconomic stability and fostering stronger and more sustained growth. The basic framework of the 2011 budget that we prepared with Fund staff during the fifth review continues to guide our policies. However, we experienced the exogenous shocks that we felt compelled to absorb through unplanned expenditures, which will have an impact on the composition of our spending for the year. Nevertheless, the strategic budgetary orientations remain unchanged in promoting faster growth, while taking account of our desire to maintain social stability and preserve the gains of the program.

3. Indeed, the surge in petroleum product prices occurred at the same time as we were raising electricity prices in order to reduce the subsidies to the Togo Electricity Company (CEET), which was running losses. Combined with high prices for imported foodstuffs, this situation was not conducive to beginning to implement the petroleum product price adjustment mechanism in January 2011, as planned. Despite these immediate difficulties, our economic performance is continuing to improve, both in terms of growth and investor confidence in Togo's future.

Recent economic developments

4. The economic recovery that began in 2009 strengthened in 2010, boosting real GDP growth to 3.7 percent in a context of generally moderate inflation. This recovery was supported primarily by a recovery in the cotton sector, buoyant activity at the Autonomous Port of Lomé (especially the end-year increase in transit trade), and the public works launched by the government. Inflation remained moderate at 1.4 percent in 2010 despite the surge in the international prices of food and petroleum products, thanks to a satisfactory food harvest, the predominance of subsistence agriculture, to the large share of locally produced food in the consumption basket of the Togolese people, and the subsidization of petroleum products.

5. According to our estimates, the current account deficit worsened to about 7.2 percent of GDP in 2010, compared to 6.6 percent in 2009, despite an improvement in current transfers. This is explained by a significant increase in imports, owing mainly to rising international prices for petroleum product and imports of intermediate and capital goods associated with the start of major infrastructure projects. The value of exports increased only moderately, due notably to a drop in phosphate exports.

6. The money supply grew by 16.3 percent in 2010, according to the monetary survey. This was the result of an annual increase in domestic credit of nearly 20 percent, driven mainly by a 21.6 percent increase in credit to the economy. The rebound in economic confidence stimulated a pick up in the lending activities of the banking system.

7. In 2011, the government intends to continue implementing measures to accelerate growth while preserving macroeconomic stability in a context of social peace. To this end, it plans to speed up implementation of the public investment program already underway, and to mitigate the impact on households of the surge in petroleum product prices, while ensuring that prices ultimately reflect market conditions. The government also intends to continue implementing the structural reforms that have been initiated.

Program implementation

8. The ECF-supported economic and financial program has generally been successfully implemented, consistent with its objectives. We have not accumulated any external arrears nor contracted or guaranteed any nonconcessional external debt. In addition, the fiscal performance at end-December 2010 meets the performance criteria established under the program.

Fiscal policy

Budget execution in 2010

9. Fiscal performance in 2010 was very satisfactory, with revenue exceeding the targets set under the program and with expenditure maintained within the agreed ceilings. Total revenue increased by 17.6 percent in 2010 compared to 2009. This was to the result of the economic recovery and the improved efficiency of tax administration. Nontax revenue doubled on account of dividends and the renewal of mobile telephony licenses. Consequently, the revenue collected reached CFAF 296.9 billion, exceeding the initial target of CFAF 267.6 billion. We have strictly adhered to planned domestic primary expenditure, which totaled CFAF 261.9 billion, below the programmed level of CFAF 269.3 billion. Consequently, the primary basic balance at end-December 2010 was CFAF 34.9 billion, compared to a deficit floor of CFAF 1.8 billion under the program. The performance criterion was thus met by a large margin.

10. These results, combined with the slow pace at which our creditors are claiming payment of the commercial arrears for which resources are available (see Paragraph 21), also enabled us to observe the performance criterion for domestic financing by a large margin. The arrears paid came to CFAF 36.9 billion, compared with a programmed level of CFAF 46.8 billion. Thus, net

domestic financing amounted to CFAF -10.6 billion compared to an adjusted ceiling of CFAF 36.4 billion.

The 2011 budget framework

11. Notwithstanding the marked impact of international price shocks, particularly for petroleum products, we are determined to continue the fiscal policy defined in our economic program for 2011. Budget execution in the first quarter of the year proceeded normally. Tax revenue collected amounted to CFAF 63.7 billion, or 24 percent of the target for the year as a whole. Despite the sharp increase in investment expenditure, its execution rate has remained stable—during the first quarter of the year, we executed 6.9 percent of the approved investment budget compared to 5.9 percent for the same period in 2010. In turn, current expenditure is in line with budget forecasts, except for the cost of petroleum product subsidies.

12. Indeed, our economy sustained setbacks resulting from the changes in petroleum product prices, to which it remains vulnerable. Petroleum product prices have a significant impact on the cost of living and, therefore, on social stability. A surge in the prices of some imported food products exacerbated this problem. In this context, the government felt compelled to cushion the impact of this increase by suspending the application of automatic adjustment mechanism for adjusting prices at the pump. However, this decision had significant impact on the State budget, with costs totaling approximately CFAF 15.8 billion by end-May.

13. Given that the oil price shock has proven to be more persistent than initially expected, the government decided to begin to apply the petroleum product price adjustment mechanism in early June. The mechanism provides for the full pass-through of world prices with some smoothing to limit price changes to 5 percent per month and to a maximum annual increase of 30 percent. Even with these price adjustments, the additional fiscal cost in 2011, over and above the cost incurred through May 30, 2011, will amount to about CFAF 16 billion. The total estimated cost for the year is thus CFAF 31.8 billion. The decision to implement the automatic fuel price adjustment was reached following a social dialogue on the impact of this policy and accompanying mitigating measures.

14. This dialogue resulted in an understanding to implement a number of temporary, targeted social measures at a cost of CFAF 3.8 billion in 2011, including the suspension of direct taxes on transporters, so as to reduce their costs, and the granting of transportation allowances for university students, as well as government employees, pensioners, and salaried workers in the private sector earning less than CFAF 35,000, or the equivalent of US$76, a month.

15. In order to offset the cost of the delayed pass-through of changes in world oil prices, we have identified, in consultation with IMF staff, investment expenditures to be deferred to the 2012 budget. To this end, a draft supplementary budget will be submitted to the National Assembly.

16. Following these changes, we have revised our expenditure targets for 2011. Regarding domestic primary expenditures, the target for domestic primary expenditures would go from CFAF 326.8 billion to CFAF 346.3 billion, considering the costs of subsidies to petroleum product prices, social expenditures, and savings to be realized to finance the subsidy. As far as revenue is concerned, the target will change from CFAF 320.2 billion to CFAF 319.8 billion. In particular, we intend to collect all the budgeted nontax revenue, with the possible exception of dividends from the phosphate company (SNPT). To achieve these targets, we will remain vigilant with regard to the performance of the state-owned enterprises and, in particular, to completing the sale of the third mobile telephony license, a process which has experienced delays. In the event that the revenue anticipated in the 2011 budget from the sale of the third mobile telephony license is not collected, we intend to postpone an equivalent level of investment expenditures to the 2012 budget. Consequently, we have revised our objective for the domestic primary deficit to CFAF 26.5 billion (1.6 percent of GDP), a budgetary framework that remains consistent with our objectives for growth and the sustainability of public finances.

17. The ceiling on domestic financing of the budget has been reduced, since the impact of the delayed receipt in January by the Treasury of the disbursement associated with the fifth ECF review exceeded the impact on the primary budget balance of the expenditures associated with the social measures discussed above. With the new budgetary support from the AfDB (CFAF 5 billion), our financing requirements for 2011 should be covered. In order to continue to improve the monitoring of budget execution, we have updated the quarterly indicative targets on the execution of the 2011 budget (Table 1). We will continue to ensure strict compliance with the ceilings on projected current and investment expenditure, and budget execution will continue to be consistent with the financing available.

18. In addition, public finance management reforms (see Paragraphs 20-22) should lead to greater efficiency in expenditure planning and execution and in resource mobilization. To implement our action plan for public finance reform, we have requested technical assistance from the IMF, in the form of both strategic support from headquarters and operational support from AFRITAC West. With regard to tax administration, we look forward to the arrival of an IMF mission to take stock of the progress made so far and to propose new measures to strengthen our reform strategy.

Implementation of the structural reforms

19. We continued to make progress in implementing the planned structural reforms envisaged needed to meet the objectives of the ECF-supported program. Considerable progress has been made since the last review in December 2010 (Table 2).

Fiscal governance

20. Our treasury cash management has improved considerably during the program period. However, there is still much progress to be made in terms of cash flow forecasting. We continue to benefit from IMF technical support through AFRITAC West and issued the decree

establishing the treasury committee in December 2010 (**end-January 2011 benchmark**), thereby putting in place all the institutional structures necessary for the effective implementation of the recommendations made to us in this area. The treasury cash management committee has become operational.

21. As indicated in our letter of November 2010, we have made considerable progress toward establishing a single treasury account. We have initiated a collaborative process with donors and the sectoral ministries with a view to devising and adopting a strategy aimed at effectively achieving a single treasury account; this process has led to delays with respect to our objectives (**end-March 2011** benchmark). Technical assistance from the IMF will be required, as will the collaboration of our partners, particularly as far as the project accounts are concerned. For our part, we are now examining approaches to reducing the number of our accounts with the central bank. With regard to commercial arrears, for which the clearing process continues, the government has paid all creditors that have come forward to sign debt settlement agreements, for an additional amount of CFAF 3.7 billion since the end of August 2010, when we reported to the IMF Executive Board on developments in this regard in the context of the last program review. However, since then the process has advanced slowly. Nevertheless, we are committed to continue paying creditors until the end of the statute of limitations, namely end-June 2013.

22. The reforms of our public finance systems are continuing with the support of the African Development Bank, the European Union, and the IMF. The action plan drawn up with the assistance of our partners is now being implemented. A crucial component of this reform, the transposition of WAEMU directives on public financial management into national legal provisions, is underway. The texts have already been drafted and we expect to complete this transposition in 2011, well before the 2012 deadline established by the WAEMU Commission. We have also named and installed customs and tax collectors. They received training from AFRITAC West, and the start of their work should improve tax administration considerably. In addition, the monitoring of exemptions has been strengthened by a memorandum from the Minister of Economy and Finance aimed at limiting exemptions to only those that are granted by the laws and regulations in force. The new customs code has been submitted to the Office of the Secretary-General of the Government where it is currently under review. It is expected to be adopted by end-2011.

Financial sector reform

23. We remain committed to privatizing the four state-owned banks, although it was not possible for us to issue the call for bids by end-April, as planned in the program (**end-April 2011 benchmark**). The Privatization Commission established in November 2010 met with privatization advisors in April 2011 to initiate the process intended to identify the strategic choices for the privatization and establish a timetable for the necessary steps leading up to the sale of the equity interests of the State. The commission has proposed a privatization strategy for adoption by the Council of Ministers, authorizing the Minister of Economy and Finance to continue the process that will culminate in the effective privatization of the banks. In tandem

with the above, the banks' files are being updated by the consulting firms with a view to preparing the data room.

24. In this context, we will launch the process of calling for expressions of interest for the state-owned banks before the meeting of the IMF Executive Board that will examine the report for the 6th review of the ECF. In particular, we will publish a pre-qualification notice in the national press in the form of an advertisement (**prior action**), to be followed by a notice in the international press. In addition, the receipts from the bank privatizations will be used to repay the domestic debt, in particular the securities issued as part of the bank restructuring process, thereby permitting a significant improvement in public debt dynamics. In collaboration with the WAMU Banking Commission, the government also remains committed to maintaining strict control over the management of these banks until the privatization process has been completed.

25. The process leading to the establishment of a company to recover the nonperforming loans acquired by the government in the context of bank restructuring is progressing, but is taking longer than projected (**end-December 2010 benchmark)**, as a number of legal steps had to be taken before it could effectively become operational. These involve in particular the laws bestowing on the asset recovery company the exceptional privileges and prerogatives of the public authorities with regard to asset recovery. We have decided to create the company by decree, even before the exceptional prerogatives of public authority are vested in it by law, which will make it immediately possible to put in place the human and material resources required for its operation. In fact, the creation of the Togo Asset Recovery Company is now programmed to take place before end-July 2011.

26. We have initiated the process of developing a financial sector development strategy with technical and financial support from our development partners (including Fund staff). The committee entrusted with preparing the strategy was established by order of the Minister of Economy and Finance in February 2011. A national workshop for discussing and validating the strategy is planned for September 2011.

27. The financial and organizational audit of the Togo Retirement Fund (CRT), as well as the actuarial study under the "Financial Sector Governance Project" financed by the World Bank, were finalized on schedule in December 2010 (**end-December 2010 benchmark**). A workshop to validate the studies was held in March 2011, and the recommendations of the report will be examined by the government.

Real sector

28. As regards the "one-stop window" at the Autonomous Port of Lomé, the consultant to elaborate the roadmap identifying the steps necessary for its creation (**end-September 2010 benchmark**) was recruited with a delay, owing to problems with coordination among the various parties involved in the process. The consultant's conclusions should be available by end-July 2011, enabling the government to examine the recommendations and adopt a roadmap, with a

delay compared to initial plans (**end-March 2011 benchmark**). The government remains committed to completing this measure.

29. With regard to the CEET, we are committed to implementing an electricity tariff-setting policy that takes into account the company's costs and thus contributes to maintaining its financial viability while minimizing fiscal risks. According to our estimates, the rate increase by a weighted average of 20 percent (with an increase of 5-10 percent for the most vulnerable consumers) that was introduced in January 2011, together with a government subsidy of CFAF 3 billion, should ensure that CEET operations break even in 2011. Furthermore, efforts will be made to improve this company's governance.

Borrowing and public debt management strategy

30. After Togo reached the completion point of the HIPC Initiative, its debt fell to 32 percent of GDP in 2010, not including the contingent liabilities of the various pension funds (CRT, CNSS). In order to further enhance the sustainability of our external debt following the completion point, we will give priority to concessional loans when borrowing externally in accordance with our commitments to our external partners and with the pertinent procedures. Moreover, the government will pursue a prudent fiscal policy in order to maintain debt sustainability in the medium term, and will develop a borrowing strategy consistent with this objective.

31. We are in the process of developing a debt management strategy with technical support from the IMF resident mission; it is intended to define the parameters guiding our choices of debt instruments in the future. In this context, we appreciate the exchanges we have had with IMF staff in the context of Article IV consultations as regards the role that the adoption of fiscal rules could have in terms of supporting a debt management strategy and ensuring debt sustainability in the event of an acceleration of public investment. Moreover, we will continue to enhance our public debt management capacity with support from AFRITAC West and the World Bank.

32. To improve the monitoring of the public debt, state-owned enterprises have begun regularly reporting information on their external borrowing to the Ministry of the Economy and Finance, in order to ensure that this is consistent with the government's external borrowing policy. In addition, a system for systematic communication between state-owned enterprises and the debt management unit at the Ministry has been established for purposes of transmitting monthly information on public debt service obligations.

Conclusion

33. Togo appreciates the continuing and growing support that its development partners are providing. In particular, cooperation with the IMF has played a decisive role in the significant progress we have made over the past three years. The Togolese authorities are particularly pleased by the successful completion of the three-year 2008-2011 program supported by the Extended Credit Facility marked by the completion of this review. We look forward to

continuing this fruitful cooperation. To this end, we request the opening of discussions for a new IMF-supported program.

34. As indicated above, the objectives pursued by the ECF-supported program have been achieved, despite the exogenous shocks and administrative capacity constraints. We hope to consolidate the gains made under the program, and, in support of this goal, we have already agreed on indicative benchmarks for the remainder of 2011, in cooperation with the IMF mission. The government reaffirms its commitment to taking any additional measures necessary for ensuring the proper implementation of its budgetary framework. The Togolese authorities intend to consult with the IMF any possible additional measures. We request the completion of the sixth review of the EFC-supported program and disbursement of the seventh loan tranche in the amount of SDR 8.8 million.

35. Finally, the government consents to the publication of this Letter of Intent and its attachments, as well as the IMF Staff Report on the sixth review.

Very truly yours,

/s/

Adji Otèth AYASSOR

Table 1. Togo: Quantitative Performance Criteria and Indicative Targets

September 30, 2010 - December 31, 2011

	2010				2011 [2]							
	September		December		March		June		September		December	
	5th Rev. [1]	Prelim. [2]	5th Rev. [1]	Prelim.	5th Rev. [1]	Prel.	5th Rev. [1]	Proj.	5th Rev. [1]	Proj.	5th Rev. [1]	Proj.
	(In billions of CFA Francs, cumulative from the end of the previous year)											
Performance criteria (for end-June, and end-December 2010; indicative targets otherwise)												
Domestic primary fiscal balance (floor)	26.1	46.4	-1.8	34.9	5.2	-5.6	20.5	4.7	16.7	2.8	-6.6	-26.5
Non-accumulation of external arrears [3]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net domestic financing (ceiling)	-9.7	2.7	26.4	-10.6	-0.5	8.0	1.3	10.4	0.9	9.3	1.8	13.0
Net domestic financing (ceiling adjusted) [4]	-10.6		36.4									
Central governement contracting or guaranteeing of nonconcessional external debt (ceiling) [3]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicative Targets												
Total revenue (floor)	218.0	227.9	267.6	296.9	78.5	68.2	158.1	147.7	241.0	237.1	320.2	319.8
Domestic payments arrears, changes in stock (ceiling)			-46.8	-36.9	0.0	0.0	-13.2	0.0	-13.2	-6.6	-13.2	-13.2
Total domestically financed investment spending (floor)			51.0	46.2	12.5	9.0	24.2	18.5	47.6	37.5	83.6	67.7
Total domestically financed social spending (floor)			87.7	86.1	16.0	16.6	42.6	44.3	74.6	77.5	106.5	110.8
Exceptional Financing	18.5	19.4	53.5	41.1	0.0	10.8	13.2	23.7	21.6	37.5	34.2	43.7

1 Letter of Intent dated November 15, 2010.

2 Indicative targets.

3 Continuous performance criterion.

4 According to the TMU, the ceiling on net domestic financing will be adjusted to offset deviations from projected external program financing, subject to a cap of CFAF 10 billion.

Table 2. Togo: Structural Conditionality for the ECF program in 2010

Measures	Date	Macroeconomic Rationale	Status
Fiscal governance			
Complete implementation of the strategy for clearing validated domestic arrears to private suppliers	Benchmark end-March 2010	To restore the confidence of suppliers and make it possible to reduce the substantial balance of domestic payments arrears owed by the government. To support aggregate demand in the period of economic slowdown.	Not met, in expected timeframe but underway. By end-December 2010, the amount cleared fell short of targets by 28%. Clearance of all arrears has not been possible for reasons beyond the control of authorities, particularly the failure of some creditors to claim settlement.
Move towards a single Treasury account by surveying Treasury accounts in the commercial banks and the BCEAO; reduce the number of accounts by at least 30 percent.	Benchmark end-June 2010	To closely monitor Treasury operations, as this is a key element of controlling the government's cash flow operations.	Met. The survey of Treasury accounts suggested the existence of about 1259 accounts. The number of accounts was reduced to 142, thus exceeding the minimum reduction of 30 percent.
Simplify and reduce lag time in the public sector expenditure chain by eliminating redundant control points	Benchmark end-June 2010	To increase speed of implementation of investment projects in the short term and the capacity to absorb foreign aid.	Met. The financial auditing was strengthened by the implementation of the SIGFIP software that permitted to reduce the delays linked to control from a maximum of 7 to a maximum of 5 weeks. The decree no. 172/MEF/SP-PRPF dated June 28 2010 modified the expenditure chain limiting the treatment of the commitment to the credit administrator and the financial auditor.
Financial sector			
Advance on the privatization process for state-owned banks by issuing a final call for bids.	Benchmark end-September 2010	To restore confidence in Togo's financial sector, reduce risks of recurrence of macroeconomic instability linked to Togo's large loss-making state-owned banks, promote financial sector development and expand financial intermediation.	Not met. Delayed to end-April 2011. A new privatization law was voted in parliament in October 2010. The call for bids process could start once the privatization commission has examined the different strategic choices and has transmitted its recommendations to the Council of Ministers.
Set up the nonperforming loan management mechanism or structure and its operational support.	Benchmark end-December 2010	To recover a part of the fiscal cost of securitizing NPLs and restore sound financial relationships between banks and firms.	Not met. In the context of the approach followed by the government, the advisors prepared a business plan for the loan recovery corporation. Nevertheless, certain legal measures will have to be taken before establishing the loan recovery corporation.
Complete a financial and organizational audit of the CRT (State pension fund) and begin an actuarial study of the institution.	Benchmark end-December 2010	Establish an overall strategy for clearing the government's social debt of around 7 percent of GDP.	Met. The audit and study are part of the World Bank financial sector project.
Real Sector			
Recruit consultants to elaborate a report on the required steps to create a one-stop window at the Port Autonome de Lomé.	Benchmark end-September 2010	Foster Togo's competitiveness as a commercial hub and facilitate all administrative procedures for exports and imports and contribute to increase customs revenues.	Not met, but done with a delay. The consultant was recruited in April 2011. The one-stop window at the Port Autonome de Lomé is part of a World Bank project aiming to promote regional integration.
Approve at the Council of Ministers a new adjustment mechanism for petroleum product prices.	Benchmark end-November 2010	Implement a mechanism that limits fiscal risks by institutionalizing frequent and automatic adjustments of prices at the pump.	Met. A new price adjustment mechanism based on the recommendations of a FAD TA report was adopted. Nevertheless, the mechanism was not effectively applied until June 2011.

Table 3. Togo: Structural Conditionality for the ECF program in 2011

Measures	Date	Macroeconomic Rationale	Status
Fiscal governance			
Adopt the draft measures creating a new institutional framework for treasury cash management and putting this framework into operation.	Benchmark end-January 2011	Strengthen treasury cash management.	Met. The ministerial decree 342/MEF/SG/DGTCP of December 2010 has created a treasury committee.
Adopt a strategy that should lead over time to the establishment of a single treasury account after consultation with the sectoral ministries and development partners.	Benchmark end-March 2011	Strengthen treasury cash management. To closely monitor Treasury operations.	Not met, but process underway. The authorities are following a consultative process with donors and line ministries to elaborate, adopt and implement the strategy. They are working in close collaboration with AFRITAC for that purpose.
Financial sector			
Make progress in the privatization of public banks by issuing a final call for bids.	Benchmark end-April 2011 (revised)	Restore confidence in the Togolese financial sector, reduce the risks of new macroeconomic instability linked to the large loss-making state-owned banks and promote financial sector development and the expansion of financial intermediation.	Not met. The privatization commission held its first meeting in February 2011 and is working with the advisors on establishing a calendar and making the required strategic choices to advance the process.
Launch the process of calling for expressions of interest for the state-owned banks by publishing a pre-qualification notice in the national press in the form of an advertisement.	Prior action for completion of 6^{th} ECF review	Restore confidence in the Togolese financial sector, reduce the risks of new macroeconomic instability linked to the large loss-making state-owned banks and promote financial sector development and the expansion of financial intermediation.	Progress ongoing. A call for expressions of interest will be issued before the meeting of the IMF Executive Board.
Real Sector			
Adopt in the Council of Ministers the roadmap for the creation of a one-stop window at the Port of Lome and start the implementation of first required steps identified by the technical consultants to achieve this objective.	Benchmark end-March 2011	Foster Togo's competitiveness as a regional commercial hub facilitate the administrative procedures for exporting and importing and contribute to increase customs revenues.	Not met. The recruitment process for the technical consultants was longer than expected. Authorities are committed to adopting the roadmap once it is finalized.